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# **Audit**



# **Report**

OFFICE OF THE INSPECTOR GENERAL

**DEFENSE SPECIAL WEAPONS AGENCY  
PROCUREMENTS THROUGH  
THE DEPARTMENT OF ENERGY**

Report No. 97-144

May 21, 1997

**Department of Defense**

AQI00-01-0149

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### **Acronyms**

ATSD(NCB)	Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs)
CTR	Cooperative Threat Reduction
D&F	Determination and Finding
DOE	Department of Energy
DSWA	Defense Special Weapons Agency
IACRO	Interagency Cost Reimbursement Order



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
**400 ARMY NAVY DRIVE**  
**ARLINGTON, VIRGINIA 22202-2884**



May 21, 1997

**MEMORANDUM FOR DIRECTOR, DEFENSE SPECIAL WEAPONS AGENCY**

**SUBJECT: Audit Report on Defense Special Weapons Agency Procurements Through  
the Department of Energy (Report No. 97-144)**

We are providing this audit report for review and comment. Management comments on a draft of this report were considered when preparing the final report. The audit was conducted in response to allegations made to the Defense Hotline.

DoD Directive 7650.3 requires that all recommendations and unresolved issues be resolved promptly. As a result of management comments, we deleted draft report Recommendation 4. and renumbered draft report Recommendations 5. and 6. as Recommendations 4. and 5. Also, we revised Recommendations 2. and 4. We request that the Defense Special Weapons Agency provide comments on Recommendations 2. and 4. by July 21, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Garold E. Stephenson, Audit Program Director, at (703) 604-9332 (DSN 664-9332) or Mr. Charles M. Hanshaw, Audit Project Manager, at (703) 604-9256 (DSN 664-9256). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report 97-144  
(Project No. 6CH-8003)

May 21, 1997

### Defense Special Weapons Agency Procurements Through the Department of Energy

#### Executive Summary

**Introduction.** We performed the audit in response to allegations made to the Defense Hotline concerning work performed on Defense Special Weapons Agency interagency cost reimbursement orders to Department of Energy national laboratories. This report is the first of two on this subject. The second report will discuss the assignment of federally funded research and development center employees under the Intergovernmental Personnel Act. The Defense Special Weapons Agency and its Field Command issued 252 interagency cost reimbursement orders, valued at \$219.6 million, for FYs 1994 and 1995.

**Audit Objectives.** The overall audit objective was to determine whether the Defense Special Weapons Agency's use of interagency cost reimbursement orders complies with applicable statutes and acquisition regulations on procurement, administration, and program management. The specific audit objectives were to determine the merits of the allegation made to the Defense Hotline and to evaluate the management control program as it applied to the overall audit objective.

**Audit Results.** The allegations made to the Defense Hotline were partially substantiated. The Defense Special Weapons Agency's management of interagency cost reimbursement orders to the Department of Energy required improvement. For 35 interagency cost reimbursement orders and 43 modifications, valued at \$147.2 million:

- o 11 interagency cost reimbursement orders contained statements of work that did not specify deliverables;

- o 17 interagency cost reimbursement orders and 7 modifications did not have determination and finding documents, while an additional 11 interagency cost reimbursement orders and 30 modifications with determination and finding documents did not substantiate that Department of Energy national laboratories could perform the work more conveniently and economically than private sector contractors;

- o the Defense Special Weapons Agency did not require and did not receive Department of Energy performance reports for 26 of the interagency cost reimbursement orders and did not prepare performance evaluations for any of the 35 interagency cost reimbursement orders;

- o the Defense Special Weapons Agency did not obtain certifications from the Department of Energy on the accuracy and reasonableness of cost reimbursement vouchers totaling \$53 million for 16 interagency cost reimbursement orders; and

- o \$19.3 million of unliquidated obligations that remained on the Department of Energy records as of September 10, 1996, for 11 interagency cost reimbursement orders were not supported with valid requirements.

As a result, the Defense Special Weapons Agency was not assured that the use of interagency cost reimbursement orders resulted in the best value and that the Department of Energy national laboratories were held accountable for work performance.

See Appendix A for details on the management control program.

**Summary of Recommendations.** We recommend that the Defense Special Weapons Agency issue guidance to improve statements of work and determination and finding documents for interagency cost reimbursement orders and establish procedures to evaluate performance on interagency cost reimbursement orders. We also recommend that the Agency deobligate excess funds on interagency cost reimbursement orders and perform a review of unliquidated obligations on interagency cost reimbursement orders.

**Management Comments.** The Defense Special Weapons Agency agreed to issue guidance to improve the quality of the statements of work and determination and finding documents for interagency cost reimbursement orders, increase management oversight and associated documentation on the work performed and incurred costs, and establish procedures for written evaluations of performance on orders. The Agency also agreed to continue to request certification from the performing agency on cost reimbursement orders and perform a review of unliquidated obligations on interagency cost reimbursement orders. The Agency did not agree with draft report recommendations to establish procedures to require the Department of Energy to confirm the acceptance of all funds received on interagency cost reimbursement orders and to deobligate specific amounts of excess funds on 11 interagency cost reimbursement orders. See Part I for a summary of management comments and Part III for the complete text of management comments.

**Audit Response.** In response to the management comments, we deleted the draft recommendation to establish procedures to require the Department of Energy to confirm the acceptance of all funds received on interagency cost reimbursement orders. Also, we revised the recommendation on obtaining certifications from the Department of Energy on cost reimbursement vouchers and the recommendation to deobligate specific amounts on the 11 orders. We consider the management comments on two recommendations to be fully responsive and the other three recommendations to be partially responsive. We request that the Defense Special Weapons Agency provide additional comments on deobligation of excess funds on interagency cost reimbursement orders and on requesting Department of Energy to provide certifications promptly after payments of Economy Act vouchers when voucher details are lacking or uncertified by July 21, 1997.

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## **Part I - Audit Results**



### Audit Background

We performed the audit in response to allegations made to the Defense Hotline concerning work performed on Defense Special Weapons Agency (DSWA) interagency cost reimbursement orders (IACROs) to Department of Energy (DoE) national laboratories. See Appendix C for a discussion of the allegations made to the Defense Hotline and the audit results.

**The DSWA Mission.** The mission of DSWA is to research and develop technologies to support military systems development and operational requirements. The DSWA manages the military nuclear weapons stockpile and conducts programs associated with Cooperative Threat Reduction (CTR), arms control technology, and counterproliferation support. Through its Field Command, DSWA operates the Defense Nuclear Weapons School and supports the Army's Johnston Atoll Chemical Agent Demilitarization System. The DSWA reports to the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs) (ATSD[NCB]). The Defense Nuclear Agency was renamed DSWA in 1996, as a result of a new charter and expanded mission.

**Interagency Cost Reimbursement Orders.** The IACROs that DSWA issued are Economy Act orders. The Economy Act of 1932, United States Code, title 31, section 1535, authorizes Government agencies to enter into mutual agreements to procure supplies or services from other Government agencies. The procurements are authorized if the agency receiving the procurement is in a position to provide or obtain, by contract, the goods and services procured; if the procurements are in the best interest of the Government; and if the goods and services cannot be obtained as conveniently or cheaply from the private commercial sector. The DSWA and its Field Command issued IACROs, valued at \$219.6 million, to DoE in FYs 1994 and 1995.

**Guidance on Economy Act Procurements.** Guidance on Economy Act procurements is prescribed in Federal Acquisition Regulation subpart 7.3, "Contractor Versus Government Performance," and subpart 17.5, "Interagency Acquisition Under the Economy Act," and DoD Instruction 4000.19, "Interservice and Intergovernmental Support," August 1995. Those provisions require DoD Components to rely generally on the private commercial sector for supplies and services and to require contracting officers to participate in the identification of procurement sources. The guidance stipulates that Economy Act orders are to be supported by a determination and finding (D&F) document, which shall include an assertion that the supplies or services ordered under the Economy Act cannot be obtained as conveniently or economically from the private sector. The guidance was designed to ensure that expert knowledge of DoD procurement officials is used to protect the best interest of DoD.

**Compliance With Guidance on Economy Act Procurements.**

Historically, DoD has not effectively complied with guidance on Economy Act procurements. Congress reacted to the noncompliance of DoD by including a requirement in the National Defense Authorization Act for FY 1994 that the Secretary of Defense clarify the guidance on Economy Act procurements. The Secretary of Defense issued a memorandum, "Use of Orders Under the Economy Act," February 8, 1994, which requires DoD Components to ensure that Economy Act orders are:

- o more convenient and cost competitive than procurements from the private sector;
- o approved by managers at no lower than senior executive service, general or flag officer, or activity commander levels;
- o supported by documented determinations and findings, which are to be provided to accounting officers before committing funds on Economy Act orders; and
- o tracked to show the number and associated dollars of Economy Act orders released outside the DoD.

**DoE Work-for-Others Program.** DoE national laboratories perform work ordered under the DoE Work-for-Others Program. The Work-for-Others Program provides other Government agencies access to the special research capabilities and resources of the DoE national laboratories. DoE tasks its national laboratories to perform work for other Government agencies on a cost reimbursable basis. A fee is charged by the DoE to other Government agencies for use of DoE contracting services. DoE does not place work orders with its national laboratories until the requesting agency obligates sufficient funding to DoE. DoE benefits from the program through better and more continuous use of its facilities and personnel.

## **Audit Objectives**

The overall audit objective was to determine whether the DSWA use of IACROs complies with applicable statutes and acquisition regulations on procurement, administration, and program management. The specific audit objectives were to determine the merits of allegations made to the Defense Hotline and to evaluate the management control program as it applied to the overall audit objective. See Appendix A for a discussion of the audit scope and methodology and review of the DSWA management control program. See Appendix B for summary of prior audits and other reviews. Also, see Appendix F for a summary of potential benefits resulting from the audit.

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## Management of Interagency Cost Reimbursement Orders

DSWA management of IACROs to DoE needs improvement. For 35 IACROs and 43 modifications, valued at \$147.2 million:

- o 11 IACROs contained statements of work that did not specify work deliverables;

- o 17 IACROs and 7 modifications did not have D&F documents, while an additional 11 IACROs and 30 modifications with D&F documents did not substantiate that DoE national laboratories could perform the work more conveniently and economically than private sector contractors;

- o DSWA did not receive DoE performance reports for 26 of the IACROs and did not prepare performance evaluations for the 35 IACROs;

- o DSWA did not establish that cost reimbursements, totaling \$53 million, for 16 IACROs were accurate, reasonable, and allowable; and

- o 11 IACROs with unliquidated obligations, totaling \$19.3 million, on DoE records did not have valid requirements as of September 10, 1996.

Those conditions occurred because DSWA:

- o relied on DoE and the DoE national laboratories to prepare statements of work;

- o had not established procedures for monitoring and documenting DoE performance on IACROs and for periodically reviewing unliquidated obligations on IACROs; and

- o did not require DoE to provide details on incurred costs or to provide certified vouchers to indicate that funds were spent for the purposes stated in IACROs.

As a result, DSWA had no assurance that the use of the IACROs resulted in the best value and that the DoE national laboratories were held accountable for work performance.

## Issuance of IACROs

We reviewed 35 IACROs and 43 modifications related to the IACROs that DSWA issued to DoE in FYs 1994 and 1995. DSWA issued the modifications to change the scope of work and funding for the 35 IACROs. Appendix C provides details on the IACROs and modifications reviewed. Table 1 summarizes IACRO deficiencies.

**Table 1. IACRO Deficiencies**

<u>Deficiency</u>	<u>35 IACROs</u>	<u>43 IACRO Modifications</u>
Unspecified Statement of Work Deliverables	11	N/A
Missing D&Fs	17	7
Unsubstantiated D&Fs	11 <sup>1</sup>	30 <sup>2</sup>
No Performance Reporting	26	N/A <sup>3</sup>
No Performance Evaluations	35	N/A
Unsupported Cost Reimbursements	16	N/A
Uncounted IACROs	9	N/A
Records Not Reconciled to DoE Balances	10	N/A
Unliquidated Obligations	11	N/A

<sup>1</sup>For the 35 IACROs, 18 D&F documents were present, of which 7 were substantiated by the contract file.

<sup>2</sup>For the 43 modifications, 32 D&F documents were present. Of the 32 D&Fs, 2 were substantiated by the contract file. D&F documents were not required for 4 of the 43 modifications.

<sup>3</sup>Performance reporting not applicable to IACRO modifications.

### Statements of Work

Statements of work for 11 IACROs lacked specific work deliverables. The IACROs and modifications included requirements determined and statements of work written by DoE and DoE national laboratory employees. The statements of work were frequently based on DSWA funding constraints rather than on clearly identified, bona fide requirements.

For all 35 IACROs reviewed, DSWA issued IACROs to DoE before DoE finalized and provided formal statements of work to DSWA. The statements of work included in the finalized national laboratory proposals were usually revised from statements of work in IACROs that DoE had already accepted. For example, DSWA issued IACRO HD1102-4-CTR-05, valued at \$2 million, for CTR-related equipment to DoE on April 15, 1994. The statement of work in the IACRO was general. The statement of work requested that DoE make unspecified "necessary arrangements" for equipment selection, procurement, delivery, and technical support. DoE accepted the IACRO on April 23, 1994, and assigned portions of the IACRO to the Los Alamos National Laboratory and Lawrence Livermore National Laboratory. On September 19, 1994, the DoE national laboratories proposed revisions to the statement of work to the DoE. DoE presented the revised statement of work to DSWA with initial IACRO billings. DSWA did not object to the statement of work revisions.

### Determination and Finding Documents

Although D&F documents are required for all IACROs, DSWA prepared D&F documents to support only 18 of 35 IACROs and 32 of 43 modifications (a total of 50 D&F documents). The 50 D&F documents that DSWA project managers and contracting officers prepared did not substantiate that DoE national laboratories could perform the work more conveniently or economically than the private sector. Of the 50 D&F documents, 41 contained unsupported statements regarding the inability of the commercial sector to perform the work. On September 13, 1995, the DSWA Director for Acquisition Management issued a memorandum requesting that DSWA project officials validate all future Economy Act procurements to ensure that the procurements are more convenient and economical than procurements from the private commercial sector. In June 1996, the DSWA Director for Acquisition Management orally instructed contracting officers and contract administrators to document procurement determinations, findings, and analyses in acquisition management files.

**Missing D&F Documents.** D&F documents were not prepared for 17 of the 35 IACROs and for 7 of the 43 modifications. A total of 24 D&Fs were not prepared for the following reasons:

- o For 16 of the 17 IACROs and for 4 of the 7 modifications, DSWA did not comply with Federal Acquisition Regulation subpart 17.503, "Determination Requirements," and the February 8, 1994, Secretary of Defense memorandum on DoD Economy Act procurements. The 16 IACROs and 4 modifications with missing D&F documents were, with one exception, issued in FY 1994. On September 23, 1994, DSWA strengthened D&F document requirements to ensure compliance with Economy Act requirements. As a result, D&F documents were generally present for FY 1995 IACROs reviewed.

- o For 4 of the 26 missing D&F documents, the DSWA Johnston Atoll Branch did not follow the DSWA guidance to prepare D&F documents on modifications to increase IACRO funding.

**Substantiation for IACRO Placement.** DSWA contracting officers prepared D&F documents based on information that DSWA project and program managers submitted. DSWA program and contracting personnel did not perform market analyses to substantiate statements in the D&F documents that the IACROs issued to DoE were the most convenient and economical procurement alternative. In June 1996, DSWA established a home page on the Internet. Prospective procurement listings started to assist in determining whether any private sector contractors had interests and to provide additional opportunities for competition. DSWA established a policy that IACROs would be issued 5 days after prospective procurements initially appear on the home page. The DSWA policy will determine whether procurement alternatives are based on responses from prospective bidders. We believe that advertising the requirements on tentative IACROs on the DSWA Internet home page will provide additional assurance that DoE can perform more conveniently and economically than the private sector.

## IACRO Performance Monitoring

DSWA relied on DoE to administer the work and perform financial management, and DSWA did not effectively monitor DoE performance on the IACROs.

**Reliance on DoE to Administer Orders.** DSWA did not require and DoE did not provide progress reports for 26 of 35 IACROs reviewed. Project officials at DSWA relied on DoE and national laboratory representatives to oversee the orders and to perform technical and financial administration, including an evaluation of the reasonableness of incurred costs. DSWA did not request information from DoE and the national laboratories to effectively determine whether the work was in the best interest of DoD and that incurred costs were valid. The DSWA oversight on the 26 IACROs was limited to discussions and briefings with DoE and national laboratory representatives. Project officials at

## Management of Interagency Cost Reimbursement Orders

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DSWA stated that final work products would determine the effectiveness of DoE national laboratory performance. However, final work product deliverables were neither required nor provided for 14 of the 35 IACROs reviewed. DSWA project officials expressed satisfaction with the 21 final work products received, but had concerns regarding the cost of the work.

**Written Procedures for Monitoring Orders.** DSWA had not established written procedures for project managers and contracting officers to monitor and evaluate the performance of IACRO products and services. DSWA had a Project Officers Handbook that provided guidance for issuing IACROs to program personnel, but the handbook did not include guidance for monitoring IACRO performance and verifying the reasonableness of costs billed by the DoE. We believe that DSWA guidance should require that project managers request DoE to provide details with cost reimbursement vouchers on the work performed and related incurred costs.

**Evaluation of IACRO Performance.** DSWA project officials did not prepare written evaluations of the timeliness, quality, and reasonableness of DoE performance on IACROs. We believe that DSWA should establish procedures for program personnel to evaluate services performed under IACROs. The evaluation will help to establish accountability for performance. Appendix D has a sample form that could be used by DSWA to evaluate performance on IACROs as well as services procured on contracts awarded by DSWA.

## Cost Reimbursements

DSWA did not fully account for IACROs issued to DoE and did not effectively monitor funds obligated and reimbursed for the orders. DSWA did not verify that cost reimbursements were accurate, reasonable, and allowable for the 35 IACROs reviewed.

**Cost Reimbursement Vouchers.** DoE delegated responsibility to its national laboratories to prepare and submit Standard Form 1080, "Voucher for Transfers Between Appropriations and or Funds," revised May 1970, directly to DSWA for cost reimbursements. We reviewed 218 vouchers, valued at \$56.4 million, that DSWA maintained to support cost reimbursements for 17 IACROs. All 218 vouchers included only one total dollar amount for national laboratory incurred costs and, if applicable, a DoE overhead rate. Of the 218 vouchers reviewed, only 22 were certified by a DoE official. DSWA reimbursed \$53 million on 196 uncertified vouchers for 16 IACROs without assurance that the costs were accurate, reasonable, and allowable. DSWA administrative instructions require that DoE and other performing agencies certify vouchers submitted for reimbursement and that uncertified vouchers be returned without reimbursement. DSWA Comptroller personnel stated that they reimbursed costs without requiring detailed information or certified vouchers. DSWA Comptroller personnel wanted to avoid delays that might jeopardize accomplishment of yearly obligation and disbursement targets, resulting in reduced program funding to DSWA. We believe that DSWA should withhold

## Management of Interagency Cost Reimbursement Orders

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payment and return vouchers to DoE that do not include sufficient documentation and details of costs incurred by the national laboratories, or that are not certified to indicate that funds were expended for the purposes stated in the IACRO.

**Accounting for IACROs.** DSWA did not have full accounting control for nine IACROs that its Field Command issued to DoE in FYs 1994 and 1995. Thus, the DSWA headquarters cost accounting and financial management system could not readily account for the nine IACROs. The Field Command issued seven IACROs, totaling \$49.3 million, to the DoE for Johnston Atoll operations, but the DSWA headquarters system could easily account for only three of the IACROs, totaling \$27.2 million. The system also could not readily account for the other four Johnston Atoll IACROs because Army funds rather than DSWA funds were cited on the orders.

DSWA also did not have full accounting control for five other IACROs, totaling \$5.3 million, that the Field Command issued to DoE for CTR program procurements. The CTR funding had been designated to the Field Command by the DSWA and ATSD(NCB) CTR program offices. The funding was recorded in CTR accounts but was not readily accessible in the DSWA headquarters combined IACRO database. DSWA Comptroller personnel stated that all IACROs were recorded and maintained, but that the Field Command IACROs were not readily accessible in the DSWA Centralized Accounting and Financial Resource Management System. We believe that DSWA should correctly account for all IACROs in its Centralized Accounting and Financial Resource Management System.

**Accounting Records Reconciliation.** We reviewed the status of 14 IACROs with representatives of the DoE and the Sandia and Los Alamos National Laboratories and determined that DSWA accounting records did not reconcile with DoE accounting records for 10 of 14 IACROs. DSWA recorded \$54.4 million in funds transferred to DoE. Accounting records at DoE showed receipt of only \$44.7 million for the IACROs. DSWA was unaware of the difference because DSWA did not require DoE to provide confirmation that funds were received. DSWA should reconcile its accounting records with the DoE accounting records to clarify differences and adjustments, as necessary.

## Funds Management

DSWA had invalid unliquidated obligations totaling \$19.3 million on 11 IACROs as of September 10, 1996. Details on the IACROs with excess unliquidated obligations that we believe should be deobligated follow.



## Management of Interagency Cost Reimbursement Orders

**Material Protection Projects.** Excess unliquidated obligations of approximately \$16.6 million were on five IACROs related to the CTR Government-to-Government, chain-of-custody material protection, control, and accountability assistance projects as shown in Table 2.

<b>Table 2. CTR Unliquidated Obligations</b>	
<u>IACRO</u>	<u>Unliquidated Amount (\$000)</u>
94-602	\$11,038
94-604	4,645
94-614	606
94-846	1
HD1102-4-CTR-05	325
<b>Total</b>	<b>\$16,615</b>

DoE had allocated funds to national laboratories based on laboratory proposals, and no requirements existed for the remaining funds. The DoE did not inform DSWA that the funds were not needed and could be deobligated because DSWA did not require that DoE provide that information.

**Russian Rail Car Modifications.** About \$1.9 million in excess funds also remained on four IACROs related to the Russian rail car modification program as shown in Table 3.

<b>Table 3. Russian Rail Car Unliquidated Obligations</b>	
<u>IACRO</u>	<u>Unliquidated Amount (\$000)</u>
92-104	\$ 51
92-885	52
93-105	844
HD1102-4-CTR-01	961
<b>Total</b>	<b>\$1,908</b>

Those funds included \$947,000 of FYs 1992 and 1993 obligations on IACROs 92-104, 92-885, and 93-105 and \$961,000 of FY 1994 obligations on IACRO HD1102-4-CTR-01. DoE Sandia National Laboratory managers for the CTR program issued a report, "Sandia National Laboratories Interactions with Organizations in the Former Soviet Union," August 1995, to DSWA and DoE. The report stated that the rail car modification project was on schedule with a substantial amount of unspent money to be returned to DSWA. In September 1995, the DoE contracting officer orally notified the DSWA project officer that unspent funds were available for possible deobligation. The DSWA project officer informed DoE that the funds should be maintained in the Sandia National Laboratory account for potential future requirements, including maintenance of the rail cars.

**Los Alamos Science Projects.** Excess funds of about \$700,000 were issued on IACRO 94-5863 for the Los Alamos Neutron Science Center Performance Improvements program. DSWA included the \$700,000 in a one-time \$14.5 million payment to the DoE on September 16, 1994. The \$700,000 represented unspent project funds that remained on DoE and national laboratory records as of August 1996. DoE and national laboratory personnel could not identify specific requirements for which the \$700,000 would be used. In addition, about \$78,000 in excess funds was on IACRO 95-3023 for Los Alamos scientific computing support of DSWA. DSWA should deobligate the \$778,000 in expired funds and return that amount to the U.S. Treasury.

### Summary

DSWA needs to improve or establish procedures for the preparation of justifications for issuing IACROs to DoE and for monitoring and evaluating IACRO performance and incurred costs. Without the improvements, DSWA has no assurance that the use of the IACROs resulted in the best value and that the DoE national laboratories were held accountable for work performance.

### Management Comments on the Finding and Audit Response

**DSWA Comments on Statements of Work.** In regard to the draft report statement that 14 IACROs did not specify any work deliverables, DSWA believed that the statements of work for 3 IACROs for services did not require deliverables to be specified. DSWA believed that another three IACROs (including IACRO HD1102-4-CTR-06) adequately specified deliverables. DSWA agreed that eight IACROs were deficient. However, six of the eight IACROs pertained to base operating support at Johnson Atoll prior to DSWA discontinuing use of DoE to contract for the support.

**Audit Response.** As a result of the DSWA comments and additional analysis, we revised the report text and Appendix D to state that 11 IACROs did not specify work deliverables.

**DSWA Comments on D&F Documents.** DSWA agreed that 17 IACROs and 7 modifications were not supported by D&F documents. However, only one of the IACROs was issued after September 23, 1994, when DSWA issued policy guidance requiring that D&F documents be prepared for all IACROs. DSWA also agreed that the D&F documents for 7 of 11 IACROs and for 24 of 28 modifications did not substantiate that DoE national laboratories could perform the work more conveniently and economically than private sector contractors. However, D&F documents for four other IACROs (including IACRO 94-7627) and four other modifications (including three modifications to IACRO 94-283) substantiated that DoE national laboratories could perform the work because the work represented continuation of ongoing efforts or because

## Management of Interagency Cost Reimbursement Orders

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of the established expertise of the national laboratory. DSWA noted the example of IACRO HD1102-5-C57G01 for Davis Gun Support as one of three IACRO actions representing an ongoing national laboratory effort.

**Audit Response.** The D&F documents for the four IACROs and four modifications did not provide sufficient justification for directing the work to the DoE national laboratories and did not provide sufficient evidence that alternative commercial means could not perform the Economy Act requirements. For example, D&F documentation for IACRO 94-7627 for \$11 million of CTR funds for Brookhaven National Laboratory to establish a nuclear power plant training simulator contained no analysis showing that the commercial nuclear industry could not provide the training. Further, national laboratory experience in a past or ongoing effort is not sufficient basis for excluding consideration of private sector sources. For example, IACRO HD1102-5-C57G01 tasked the DoE to provide or modify existing ammunition for Davis Gun Support. The D&F documentation did not state whether the ammunition could be modified by non-DoE sources. Further, D&F documents for IACRO 94-283 for modifications to national-laboratory-produced CTR fissile material containers did not state why the commercial firm under contract by DSWA for future fissile containers was excluded from consideration.

**DSWA Comments on Performance Monitoring.** DSWA agreed that performance evaluations were not prepared for the 35 IACROs and that performance reports were not received from DoE for 13 of 26 IACROs. DSWA considered briefing documents in six IACROs pertaining to the CTR program to be performance reporting. For seven other IACROs that pertain to base operating support on Johnston Atoll, documentation on quarterly performance meetings conducted by DSWA was available, but not in the IACRO files.

**Audit Response.** We agree that the briefing documents in the six IACRO files reflect performance discussions. However, the briefing documents did not include cost or performance data found in the periodic written performance reports for other IACROs. For the seven IACROs related to Johnston Atoll, we found no reference to any quarterly performance reporting in the IACRO files or in any other files that we reviewed.

**DSWA Comments on Cost Reimbursements.** DSWA disagreed that it had not determined that cost reimbursements totaling \$53 million for 16 IACROs were accurate, reasonable, and allowable. All reimbursements were accomplished in accordance with established policies and guidelines. Although not required, DSWA recognizes that certification by DoE would contribute toward assurance of appropriate use of DSWA resources, and DSWA requests such certification in all IACROs. DSWA will continue to request certification of DoE reimbursement vouchers and will ensure that payment of reimbursement vouchers is accomplished in accordance with legal guidelines.

**Audit Response.** We revised the finding to clarify that DSWA had not obtained certifications from DoE on the accuracy of cost reimbursement vouchers totaling \$53 million for 16 IACROs.

**DSWA Comments on Funds Management and Potential Monetary Benefits.** DSWA did not agree that 11 IACROs had unliquidated obligations totaling \$19.3 million that were not supported by valid requirements.

**Audit Response.** The audit and DSWA looked at the unliquidated obligations on the 11 IACROs at different points in time and from different perspectives as stated in the finding. Therefore, the final report does not specify amounts for deobligation (see Appendix F), as discussed in response to Recommendation 4.

## **Recommendations, Management Comments, and Audit Response**

**Deleted and Revised Recommendations.** In response to management comments and additional analysis, we deleted draft report Recommendation 4. to establish procedures to require the DoE to confirm the acceptance of all funds reviewed on IACROs. We renumbered draft report Recommendations 5. and 6. as Recommendations 4. and 5. Also, we revised Recommendation 2. to clarify the need for certifications for IACRO cost reimbursements, and we revised Recommendation 4. to omit specific amounts for deobligation.

**We recommend that the Director, Defense Special Weapons Agency:**

**1. Issue guidance to require project officials to:**

**a. Prepare specific statements of work for interagency cost reimbursement orders that include deliverable requirements.**

**b. Prepare and maintain determination and finding documents and support records to substantiate the need to issue interagency cost reimbursement orders.**

**c. Request sufficient details on the work performed and incurred costs to determine the reasonableness of cost reimbursement vouchers submitted by the Department of Energy.**

**d. Perform written evaluations of technical performance, management performance, and customer satisfaction on interagency cost reimbursement orders.**

**DSWA Comments.** DSWA concurred with Recommendations 1.a., 1.b., and 1.d. and partially concurred with Recommendation 1.c. DSWA will publish a revised Instruction 5100.30A within 90 days and update its Project Officers Handbook within 180 days to implement Recommendations 1.a., 1.b., and 1.d. The Instruction and updated handbook will provide additional guidance regarding the required level of detail and clarity for statements of work for IACROs. In regard to Recommendation 1.c., DSWA will include a requirement in the revised Instruction and updated handbook for periodic project reviews addressing cost, schedule, and performance and will mandate a

## Management of Interagency Cost Reimbursement Orders

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minimum level of required documentation. The standard will require that the project officers be sufficiently informed to determine whether DSWA will obtain reasonable value for its money. However, project officers will not contest the performing agency determinations of allowability, allocability, and reasonableness of specific cost items.

### **2. Request that the Department of Energy:**

- a. **Certify all cost reimbursement vouchers as accurate.**
- b. **Provide the certifications promptly after DSWA payment for uncertified cost reimbursement vouchers.**
- c. **Establish Department of Energy controls to ensure that certifications are received on all vouchers.**

**DSWA Comments.** DSWA nonconcurred with the draft report recommendation that payment be withheld on uncertified cost reimbursement vouchers. DSWA stated that it does not have legal authority to refuse to pay otherwise valid vouchers based on the lack of DoE certification. However, DSWA stated that it would continue to request the certification.

**Audit Response.** In response to management comments, we revised the draft report recommendation. Title 31, U.S. Code, section 1535(b) provides that a bill submitted or a request for payment is not subject to audit or certification in advance of payment. Notwithstanding that DSWA does not have legal authority to obtain certifications in advance of payment, we believe that it is prudent for DSWA to obtain certifications or sufficient details of incurred costs from DoE on all cost reimbursement vouchers to determine voucher reasonableness. Therefore, we request that DSWA provide additional comments on the revised recommendation.

### **3. Validate that all interagency cost reimbursement orders are recorded in the Centralized Accounting and Financial Resource Management System.**

**DSWA Comments.** DSWA partially concurred with the recommendation, stating that all DSWA resources are fully accounted for within the Centralized Accounting and Financial Resource Management System. As part of a review of financial management practices, the DSWA Comptroller has recognized that differences in numbering conventions were being utilized at the DSWA Field Command and has taken action to standardize document numbering methodologies to facilitate tracking, review, and analysis efforts in the future.

**4. Deobligate excess funds on Defense Special Weapons Agency Interagency Cost Reimbursement Orders 94-602, 94-604, 94-614, 94-846, HD1102-4-CTR-05, 92-104, 92-885, 93-105, and HD1102-4-CTR-01, 94-5863, and 95-3023.**

**DSWA Comments.** DSWA nonconcurred with the draft report recommendation to deobligate specific amounts on the 11 IACROs. DSWA stated that the unobligated amounts reflected in its accounting system for the orders as of April 10, 1997, were \$12.8 million and not the \$19.3 million identified in the draft report. Further, the amounts identified in the report erroneously assumed that the efforts in question were fully complete and that all billings had been submitted and paid. DSWA stated that the draft report represents billings and payments as of a given point in time and not the final, close-out position for the programs in question. DSWA agreed to conduct a thorough review of unliquidated IACRO balances and take prompt action to deobligate any balances validated as excess.

**Audit Response.** In response to the comments, we omitted specific amounts from the recommendation for deobligation on the IACROs. The amounts of excess unliquidated obligations cited in the draft report were as of September 10, 1996, when cognizant DoE officials at the DoE Albuquerque, New Mexico, operations office told us that no requirements existed for the funds on eight of the IACROs and were uncertain of the requirements on the other three IACROs. DSWA provided information on unliquidated balances recorded as of April 10, 1997, but did not state whether it had given DoE additional work requirements on the IACROs after September 10, 1996, or whether DSWA verified fund requirements for any of the orders. We request that DSWA provide additional comments that identify the amounts of excess funds deobligated or used for new requirements.

**5. Review obligations on all interagency cost reimbursement orders and deobligate any funds that exceed amounts required to complete the orders.**

**DSWA Comments.** DSWA agreed to review unliquidated obligations on IACROs and stated that it also planned to address any "left-over" funds on IACROs involving advance billings. DSWA will issue modifications to Instruction 5100.30A and the Project Officers Handbook that will require the project officer to monitor financial performance. DSWA will also ask DoE and other recipient agencies to advise of any funds remaining at the conclusion of the effort. Within 60 days, DSWA will require appropriate agency personnel to perform the review and to take action to deobligate any funds that exceed amounts required to complete the orders.

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## **Part II - Additional Information**



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## Appendix A. Scope and Methodology

### Audit Scope

**Universe and Sample Information.** We obtained audit universe information on IACROs issued in FYs 1994 and 1995 from DSWA and its Field Command. During that period, DSWA and its Field Command issued 252 IACROs totaling \$219.6 million. About 90 percent of the dollar value of those orders was issued to the DoE national laboratories, which included Sandia National Laboratory, Los Alamos National Laboratory, Lawrence Livermore Laboratories, Brookhaven Laboratories, and various DoE test locations. This audit concentrated on IACROs issued to those laboratories.

**IACRO Sample Selection.** We judgmentally selected 35 IACROs, valued at \$158.4 million, issued to the DoE in FYs 1994 and 1995. We selected 26 of the IACROs, valued at \$131 million, from the DSWA headquarters accounting system and 9 orders, valued at \$27.4 million, issued by the DSWA Field Command that were not included in the headquarters accounting system. The IACROs were for procurements for 17 DSWA projects, including 5 CTR program projects and included procurements discussed in the Defense Hotline complaint. We reviewed 78 actions valued at \$147.2 million for the 35 IACROs. Details of the review are summarized in Appendix C.

### Audit Methodology

**Review of Documentation.** We reviewed documentation, dated from 1993 through 1995, maintained by DSWA and ATSD(NCB) to support Economy Act procurements to ascertain the merit of allegations made in the complaint to the Defense Hotline. The documentation included:

- o the IACROs and modifications,
- o statements of work,
- o D&F documents,
- o administrative instructions,
- o analyses of cost/price or technical support,

- o DoE work proposals,
- o deliverables acceptance documentation,
- o DoE vouchers for cost reimbursements,
- o DoD and DoE memorandums of agreement, and
- o program management correspondence.

**Interviews.** We interviewed DSWA and ATSD(NCB) comptroller, acquisition, and program managers on IACROs and related management controls. We also interviewed DoE, Sandia National Laboratory, and Los Alamos National Laboratory managers on those matters.

**Contacts During the Audit.** We visited or contacted individuals and organizations within the DoD, DoE, DoE national laboratories, and the General Accounting Office. Further details are available on request.

**Audit Period, Standards, and Locations.** This economy and efficiency audit was made from October 1995 through December 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary. The audit did not rely on computer-processed data or statistical sampling procedures.

### Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** We reviewed DSWA management controls covering IACROs, including DSWA self-evaluations.

**Adequacy of DSWA Management Controls.** Material management control weaknesses as defined by DoD Directive 5010.38, relating to DSWA management of IACROs, continue to exist. The DSWA did not implement effective management controls over Economy Act procurements and funds obligated and expended for those procurements. Corrective action plans for FY 1995 that included reissuing the DSWA Project Officers Handbook and validation testing had not been implemented. While we consider our audit a substitute for validation testing, audit results indicated that further corrective action is required. Implementation of recommendations in this report will

## Appendix A. Scope and Methodology

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correct the material management control weaknesses and improve management controls and economy and efficiency over IACROs at DSWA. Quantification of future monetary benefits from improved management controls was not possible. A copy of the report will be provided to the senior official responsible for management controls at DSWA.

**Adequacy of DSWA Self-Evaluation.** DSWA officials identified IACROs as an assessable unit of the procurement function category. The DSWA officials identified and reported on control weaknesses covering IACROs. DSWA self-evaluations for FYs 1993 through 1996 declared that placement of IACROs represented an uncorrected material weakness. DSWA developed an initial plan for corrective action of the material weakness in FY 1994. The plan included development and distribution of a DSWA policy letter on IACROs, changes to the DSWA Project Officers Handbook, and validation testing. The policy letter was distributed on September 23, 1994, and included the Secretary of Defense Policy Letter on Economy Act orders of February 8, 1994. Changes to the DSWA Project Officers Handbook and validation testing were rescheduled for May 1995 implementation. However, the procedures and management actions to correct the management control weakness were too general and do not include testing and validation documentation to support the corrections. DSWA postponed implementation of the revised FY 1996 self-evaluation procedure and action until September 30, 1997, pending our final audit results.

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## **Appendix B. Summary of Prior Audits and Other Reviews**

### **General Accounting Office**

**Report No. NSIAD-96-10, "Interagency Contracting, Controls Over Economy Act Orders Being Strengthened," October 20, 1995.** The report concluded that the DoD is still adjusting to the Economy Act changes introduced by the Secretary of Defense. The report states that DoD has not yet implemented a statutorily mandated monitoring system for its interagency purchases. The General Accounting Office made no specific recommendations. The DoD concurred with the General Accounting Office report.

**Report No. NSIAD-95-165, "Weapons of Mass Destruction, Reducing the Threat From the Former Soviet Union: An Update," June 6, 1995.** The report concluded that overall material impact of the CTR program has been limited and that the program must overcome numerous challenges and problems to realize long-term CTR objectives. The report states that DoD has made progress in planning, obligating, and expending CTR program funds. The General Accounting Office recommended that Congress reduce FY 1996 CTR funding by \$34 million because of uncertainties regarding Russian chemical weapons destruction efforts. DoD nonconcurred with the report, stating that tangible reductions in the threat to the United States had been achieved through the CTR program. DoD also nonconcurred with the recommended funding reduction.

**Report No. NSIAD-95-7, "Weapons of Mass Destruction, Reducing the Threat From the Former Soviet Union," October 6, 1994.** The report concluded that the DoD had not established a process to ensure that annual CTR budget requests were driven by long-range task assessments. The report states that DoD had not estimated the total requirements for achieving program objectives and that the prognosis for achieving program objectives varied widely and that DoD had yet to audit former Soviet use of CTR aid. The General Accounting Office recommended that DoD institute a long-term planning process to help budget CTR funds among competing demands. DoD concurred on the planning recommendation, stating that two long-term planning offices in policy and in acquisition would be established for future CTR budget

## Appendix B. Summary of Prior Audits and Other Reviews

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submissions. However, DoD nonconcurred that Congress withhold large-scale funding for future CTR projects until results of initial CTR projects were fully assessed. DoD stated that it was premature to make statements on effectiveness let alone cut funding. Congress subsequently required DoD to estimate expenditures to meet CTR objectives, prepare a multiyear CTR program plan, and report how CTR would be used for its intended purposes.

### Inspector General, DoD

**Report No. 96-043, "Administration of the Fissile Material Container Contract," December 12, 1995.** The report states that DSWA management controls were not adequate to ensure that the Fissile Material Container design was fully developed before award of a production contract. The audit noted that the management control weakness was corrected as of September 1995; therefore, the report contained no recommendations.

**Report No. 96-039, "Financial Accounting for the Defense Nuclear Agency," December 11, 1995.** The report states that the DSWA financial accounting system was in substantial compliance with DoD accounting requirements and that the system was capable of providing information required for monthly budgetary reporting. However, corrections to certain deficiencies were essential to produce accurate and auditable financial statements needed to support DoD consolidated statements. The report recommended that DSWA correct computer logic errors in its financial accounting system, adjust general ledger accounts for incorrect and unsupportable balances, establish subsidiary records to support specific asset and liability accounts, retain general ledger histories, and determine ownership for assets transferred under the CTR program. The Director, DSWA, concurred with the finding and all recommendations and stated that corrections had been made or were in process.

**Report No. 94-008, "DoD Procurements Through the Tennessee Valley Authority Technology Brokering Program," October 20, 1993.** The report states that DoD activities issued Economy Act orders to the Tennessee Valley Authority Technology Brokering Program that circumvented the Federal procurement process. In addition, DoD organizations did not provide for adequate contract administration and contract audits to verify that work was performed in accordance with the Tennessee Valley Authority cooperative agreements. Further, the Tennessee Valley Authority earned about \$139.4 million in interest on DoD funds by requiring DoD to make payments before receiving the goods and services. The report recommended that DoD establish procedures to prevent further circumvention of the Federal procurement process, define requirements for Federal information processing resources, and establish controls over classified information. The report

## Appendix B. Summary of Prior Audits and Other Reviews

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recommended that the Air Mobility Command assign program management functions to Government employees to prevent the procurement of personal services; the Military Departments strengthen the administration of Economy Act orders; the Deputy Under Secretary of Defense (Environmental Security) issue guidance addressing the payment of Economy Act orders to agencies with commercial bank accounts; and DoD recoup the interest earned by the Tennessee Valley Authority on DoD funds. The Army, Navy, and Air Force generally agreed with the recommendations and took the recommended actions. The Deputy Under Secretary of Defense (Environmental Security) issued a revised DoD Instruction 4000.19 on August 9, 1995, that provided guidance on the issuance of Economy Act Orders by DoD components to other Federal agencies.

**Report No. 93-059, "Army Acquisition of Services Through the Jet Propulsion Laboratory," February 25, 1993.** The report states that Army program officials circumvented established policy and exceeded their authority by not obtaining required contracting officer approval before placing \$10.5 million in interagency acquisitions through the Jet Propulsion Laboratory. As a result, the Army paid \$1.5 million for add-on costs for services chiefly performed by the Jet Propulsion Laboratory subcontractors. The report recommended that Army commands prohibit the placement of supplemental work under the interagency agreements unless approved by a DoD contracting officer, initiate disciplinary actions against those officials who knowingly exceeded their authority by placing work with the Jet Propulsion Laboratory, and establish procedures for the use of interagency acquisitions. Management concurred with the recommendations and took the recommended actions.

**Report No. 93-042, "Allegations of Improprieties Involving DoD Acquisitions of Services Through the Department of Energy," January 21, 1993.** The report states that the Military Departments did not adequately strengthen controls over the use of interagency agreements in response to Inspector General, DoD, Report No. 90-085, "DoD Hotline Allegation of Irregularities in DoD Contractual Arrangements With the Department of Energy," June 19, 1990. Report No. 90-085 states that program officials circumvented established policy and exceeded their authority by not obtaining required approvals from DoD procurement officials or designated senior DoD officials when placing orders for interagency acquisitions. Report No. 93-042 states that DoD organizations did not obtain prior approval from a DoD contracting official before placing Economy Act orders with the DoE, Oak Ridge Field Office. For the sample of 196 Economy Act orders reviewed, DoD paid about \$11.6 million in additional costs. Internal controls had not been established for interagency agreements and orders to validate that deliverables met requirements, that vouchers totaling \$78.4 million were accurate, and that the best interests of DoD were protected. The report also states that DoD management information systems could not identify the number, value, issuing organization, or recipient of Economy Act orders. The report

## Appendix B. Summary of Prior Audits and Other Reviews

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recommended that DoD establish criteria and specify details to include in interagency agreements, discipline DoD officials who knowingly exceeded their authority by placing Economy Act orders with DoE, establish internal controls to ensure adequate administration of DoD Economy Act orders, and establish a system for tracking DoD procurements that use Economy Act orders. The report also recommended the establishment of a central point within DoD to oversee policy and administration of interagency acquisitions. The Director, Defense Procurement, nonconcurred with the need for an information system to track interagency acquisitions, but planned to address the need for a contracting officer approval of orders through the Defense Acquisition Regulations Council.

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## Appendix C. Discussion of Allegations and Audit Results

**Allegation.** Sandia National Laboratory performed work on DSWA IACROs that was costly and of random quality.

**Audit Results.** We partially substantiated the allegation. DSWA did not determine that procurements from the laboratories were in the best interest of DoD and that obligations and cost reimbursements were accurate and reasonable. DSWA incorporated broad statements of work prepared by the DoE national laboratories for IACROs to those laboratories. The statements of work provided little incentive to the DoE or the national laboratories to control costs or to provide quality performance. The D&F documents prepared by DSWA did not substantiate that DoE national laboratories could perform the work more conveniently or economically than the private sector. Funds obligated by DSWA exceeded validated requirements. DSWA reimbursed DoE for incurred costs for the orders based solely on uncertified vouchers that lacked detailed cost information. We did not substantiate the allegation that work on the IACROs was of random quality. The finding discusses the management of IACROs issued to the DoE national laboratories.

**Allegation.** The Sandia National Laboratory took credit for work performed by others.

**Audit Results.** We did not substantiate the allegation. However, DSWA project managers, who were responsible for monitoring IACRO performance and deliverables, did not prepare performance evaluations to document technical and management performance problems. Therefore, no documentation was available to determine whether the alleged problem occurred. The finding discusses the lack of performance evaluation procedures for IACROs at DSWA.



# Appendix D. Details on Interagency Cost Reimbursement Orders Reviewed

<u>IACRO<sup>1</sup></u> <u>Modification</u>	<u>Total</u> <u>Amount</u> <u>(\$000)</u>	<u>Performing<sup>2</sup></u> <u>Organization</u>	<u>Program</u>	<u>D &amp; F</u>	<u>D&amp;F</u> <u>Supported</u>	<u>Deliverables</u> <u>Specified</u>	<u>Performance</u> <u>Reporting</u>	<u>Order Accessible on</u> <u>DSWA Database</u>
94-283/Basic	400	SNL	CTR	No	N/A	Yes	Yes	Yes
01	400			No	N/A			
03	250			No	N/A			
04	700			Yes	No			
05	450			Yes	No			
06	500			Yes	No			
94-286	2,100	SNL	NEST	No	N/A	Yes	Yes	Yes
94-5863	14,467	LANL	LANSCF	Yes	No	Yes	No	Yes
94-5866	1,348	SNL	SAR	Yes	No	Yes	Yes	Yes
94-602/Basic	172	<sup>3</sup>	CTR	No	N/A	Yes	Yes	Yes
01	81			Yes	No			
02	284			No	N/A			
03	96			Yes	Yes			
04	40			Yes	No			
05	182			Yes	Yes			
06	18,230			Yes	No			
08	5,000			Yes	No			
94-604/Basic	16	<sup>4</sup>	CTR	No	N/A	Yes	Yes	Yes
01	2,387			No	N/A			
02	7,000			Yes	No			
94-614/Basic	16	<sup>4</sup>	CTR	No	N/A	Yes	Yes	Yes
01	1,616			Yes	No			
02	1,700			Yes	No			
94-7627	11,000	BNL	CTR	Yes	No	Yes	No	Yes
94-7628	1,000	<sup>5</sup>	CTR	Yes	Yes	No	No	Yes
94-816	125	SNL	WSSS	No	N/A	Yes	No	Yes
94-826/01	275	SNL	WSSA	No	N/A	Yes	No	Yes
02	1,136			No	N/A			
03	450			No	N/A			

See footnotes at end of table.

# Appendix D. Details on Interagency Cost Reimbursement Orders Reviewed

IACRO <sup>1</sup> Modification	Total Amount (\$000)	Performing Organization <sup>2</sup>	Program	D & F	D&F Supported	Deliverables Specified	Performance Reporting	Order Accessible on DSWA Database
94-832/Basic 01 02	1,375 5,912 2,304	LANL	LASC	No No Yes	N/A N/A No	No	No	Yes
94-846	100	SNL	CTR	No	N/A	Yes	Yes	Yes
95-3005/Basic 01	1,000 600	SNL	WSSA	Yes Yes	No No	Yes	No	Yes
95-3015/Basic 01 02	250 1,850 30	SNL	NEST	Yes Yes Yes	Yes Yes Yes	Yes	Yes	Yes
95-3040	2,111	<sup>6</sup>	CP	Yes	No	Yes	Yes	Yes
95-3023/Basic 01 02 03	5,264 911 481 550	LANL	LASC	Yes Yes Yes No	No No No N/A	No	No	Yes
HD1102-4-CTR-01/Basic 02	1,500 (100)	SNL	CTR	No N/A	N/A N/A	Yes	No	Yes
HD1102-4-CTR-02/Basic 01	450 400	SNL	CTR	No Yes	N/A No	Yes	No	No
HD1102-4-CTR-04	2,000	<sup>7</sup>	CTR	No	N/A	Yes	No	Yes
HD1102-4-CTR-05	2,000	<sup>7</sup>	CTR	No	N/A	No	No	Yes
HD1102-4-CTR-06	513	SNL	CTR	Yes	Yes	Yes	No	No
HD1102-4-CTRAC-01	450	SNL	CTR	Yes	No	Yes	No	No
HD1102-4-5100-11	2,200	RSN	JA	No	N/A	No	No	Yes
HD1102-4-124A-02/Basic 01	560 33	SNL	NTS	No Yes	N/A No	Yes	No	Yes

See footnotes at end of table.

# Appendix D. Details on Interagency Cost Reimbursement Orders Reviewed

<u>IACRO<sup>1</sup> Modification</u>	<u>Total Amount (\$000)</u>	<u>Performing Organization<sup>2</sup> Program</u>	<u>D &amp; F</u>	<u>D&amp;F Supported</u>	<u>Deliverables Specified</u>	<u>Performance Reporting</u>	<u>Order Accessible on DSWA Database</u>
HD1102-5-5XXX-01/Basic 01	6,000	RSN	JA	Yes	No	No	Yes
02	5,700			No			
03	3,545			Yes			
04	3,907			No			
05	880			Yes			
08	5,360			Yes			
	(420)			N/A			
HD1102-5-5100-01/01	750	RSN	JA	Yes	No	No	No
02	100			Yes			
HD1102-5-5100-02/04	1,000	RSN	JA	Yes	No	No	No
05	450			Yes			
HD1102-5-5100-04/01	1,795	RSN	JA	Yes	No	No	No
03	4,500			No			
05	1,046			Yes			
06	800			Yes			
HD1102-5-5100-07/01	315	RSN	JA	Yes	No	No	No
HD1102-5-CTR-01	3,466	SNL	CTR	Yes	Yes	No	No
HD1102-5-C57G-01	307	SNL	DGS	Yes	N/A <sup>8</sup>	No	Yes
HD1102-5-124A-01	364	SNL	NTS	Yes	N/A <sup>8</sup>	No	Yes
HD1102-5-145H-01	3,000	SNL	NTS	Yes	N/A <sup>8</sup>	No	Yes
HD1102-5-PROJ-01/Basic	232	RSN	JA	Yes	No	No	No
01	500			Yes			
02	(500)			N/A			
03	(39)			N/A			
TOTALS	\$147,223			YES = 9 NO = 41 N/A = 28	YES = 21 NO = 11 N/A = 3 <sup>8</sup>	YES = 9 NO = 26	YES = 26 NO = 9

See footnotes at end of table.

## Appendix D. Details on Interagency Cost Reimbursement Orders Reviewed

<sup>1</sup>The actions included 35 IACROs and 43 modifications, for 78 total actions. Of the 78 total actions, 74 obligated funding, while 4 deobligated funding.

<sup>2</sup>Work was performed by SNL, which is managed by Lockheed-Martin Corporation, a for-profit operating contractor. Work was performed by RSN on a for-profit basis through a contract from the Department of Energy. Work was performed by ANL, BNL, LANL, LLNL, and PNL, which are managed by not-for-profit organizations.

<sup>3</sup>Work was performed by SNL, LANL, LLNL, BNL, and PNL organizations.

<sup>4</sup>Work was performed by SNL, LANL, and ANL organizations.

<sup>5</sup>Performing organization is classified.

<sup>6</sup>Work was performed by SNL, LANL, and LLNL organizations.

<sup>7</sup>Work was performed by SNL and LANL organizations.

<sup>8</sup>Service-oriented IACRO. Specified deliverables were not required.

### Acronyms:

ANL	Argonne National Laboratory
BNL	Brookhaven National Laboratory
CP	Counterproliferation
CTR	Cooperative Threat Reduction
D&F	Determinations and Findings Document
DGS	Davis Gun Support
DSWA	Defense Special Weapons Agency
IACRO	Interagency Cost Reimbursement Order
JA	Johnston Atoll Support
LANL	Los Alamos National Laboratory
LANSCE	Los Alamos Neutron Science Center
LASC	Los Alamos Scientific Computing
LLNL	Lawrence Livermore National Laboratory
NEST	Nuclear Emergency Search Team
NTS	Nevada Test Site
PNL	Pacific Northwest Laboratory
RSN	Raytheon Services Nevada
SAR	Synthetic Aperture Radar
SNL	Sandia National Laboratory
WSSA	Weapons Systems Safety Assessments
WSSS	Weapons Storage and Security System

## Appendix E. Sample Performance Evaluation Form for Contract Services

The Office of Federal Procurement Policy guidance can be used to evaluate services performed under IACROs.

### TASK ORDER EVALUATION

To be completed by the Task Monitor (TM) each quarter (1 Oct, 1 Jan, 1 Apr, and 1 Jul) and at the completion of the Task Order to evaluate the contractor's performance. Completed evaluations are to be forwarded to the COTR/COR for review.

1. Contract Number      2. TO Number      3. TO Title
4. TO Award Date    5. TO Completion Date    6. Total Cost      7. TO Type: ☐ T&M ☐ FFP ☐ CPFF
8. a. Prime Contractor    b. Principal Subcontractor(s) (List the Prime's subcontractors that worked on the TO)
- c. TO Evaluation

TECHNICAL PERFORMANCE							
FACTORS/RATINGS	"Plus" (6)	"Excellent" (5)	"Good" (4)	"Fair" (3)	"Poor" (2)	"Unsatisfactory" (1)	Not Applicable (N/A.)
1. Completion of major tasks/milestones/deliverables on schedule.							
2. Responsiveness to changes in technical direction.							
3. Ability to identify risk factors and alternatives for alleviating risk.							
4. Ability to identify and solve problems expeditiously.							
5. Ability to employ standard tools/methods (e.g., standards, commercial products, info. engineering tools).							

MANAGEMENT PERFORMANCE							
FACTORS/RATINGS	"Plus" (6)	"Excellent" (5)	"Good" (4)	"Fair" (3)	"Poor" (2)	"Unsatisfactory" (1)	Not Applicable (N/A.)
6. Overall communication with the Government.							
7. Effectiveness and reliability of Contractor's Key Personnel							
8. Ability to recruit and maintain qualified personnel.							
9. Ability to manage multiple and diverse projects/tasks from planning through execution.							
10. Ability to effectively manage subcontractors.							
11. Ability to meet goals for use of Small, Small Disadvantaged, and Woman Owned Small Business subcontractors.							

Source: Office of Federal Procurement Policy draft, "A Guide to Best Practices for Task and Delivery Order Contracting," September 27, 1996.

## Appendix E. Sample Performance Evaluation Form for Contract Services

MANAGEMENT PERFORMANCE (CONT'D)							
FACTORS/RATINGS	"Plus" (6)	"Excellent" (5)	"Good" (4)	"Fair" (3)	"Poor" (2)	"Unsatisfactory" (1)	Not Applicable (N/A.)
12. Ability to accurately estimate and control cost to complete tasks.							
13. Overall performance in planning, scheduling, and monitoring.							
14. Use of management tools (e.g. cost/schedule, task management tools).							

CUSTOMER SATISFACTION							
FACTORS/RATINGS	"Plus" (6)	"Excellent" (5)	"Good" (4)	"Fair" (3)	"Poor" (2)	"Unsatisfactory" (1)	Not Applicable (N/A.)
15. How would you rate the Contractor's <u>overall technical performance</u> on this contract/order?							
16. How would you rate the Contractor's <u>overall management performance</u> on this contract/order?							
17. How would you rate the Contractor's ability to be cooperative, business-like and concerned with the interests of the customer?							

9. Additional Comments:

10. Would you use contractor again? ☐ Y ☐ N (please explain)

11. List the Major Technical Deliverables delivered during this TO:

	Title	Description	Date Due	Date Recd	Date "Deliverable Eval." Submitted
1.					
2.					
3.					
4.					
5.					

12. TM Name

13. TM Signature

14. Date

15. COR Name

16. COR Signature

17. Date

18. Contractor Comments:

## Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and Efficiency and Management Control Program. Requires submission of detailed progress reports and cost data by the accepting DoE national laboratory. Also requires the DSWA validation and periodic reviews of Economy Act work products to determine whether payments are commensurate to worked performed.	Undeterminable.*
2.	Economy and Efficiency and Management Control Program. Requires that DSWA ask DoE to provide certifications promptly after payments of Economy Act vouchers when details are lacking or vouchers are uncertified.	Undeterminable.*
3.	Economy and Efficiency and Management Control Program. Requires DSWA to validate IACRO records in the DSWA accounting system.	Undeterminable.*
4.	Economy and Efficiency and Management Control Program. Deobligates funds that are not required on IACROs.	Funds put to better use. \$19.3 million of unliquidated obligations on 11 DSWA IACROs, as of September 10, 1996.

See footnote on next page.

## Appendix F. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
5.	Economy and Efficiency and Management Control Program. Cancels any excess unliquidated obligation and recovers any excessive advance payments on completed IACROs.	Undeterminable.*

\*Quantifying monetary benefits of reduced IACRO costs from improved management controls could not be projected due to unknown amounts of future requirements.



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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Acquisition Reform)  
Deputy Under Secretary of Defense (Industrial Affairs and Installations)  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs)  
Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency  
Director, Defense Special Weapons Agency  
Director, National Security Agency  
Inspector General, National Security Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
General Accounting Office

Chairman and ranking minority member of each of the following congressional  
committees and subcommittees

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
Justice, Committee on Government Reform and Oversight  
House Committee on National Security

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## **Part III - Management Comments**

# Defense Special Weapons Agency Comments



Defense Special Weapons Agency  
6801 Telegraph Road  
Alexandria, Virginia 22310-3398

APR 24 1997

MEMORANDUM FOR DIRECTOR, CONTRACT MANAGEMENT DIRECTORATE,  
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Management Response to the Draft of Proposed Audit Report,  
"Defense Special Weapons Agency Procurements Through the  
Department of Energy," Project No. 6CH-8003, February 10, 1997

Thank you for the opportunity to review and comment on the subject draft report. Our responses to the individual findings and recommendations are attached.

The Defense Special Weapons Agency (DSWA) identified our Economy Act certification procedures as a material weakness in our FY 93 Annual Statement of Assurance and, on September 23, 1994, took corrective action. A copy of the September 23, 1994 policy memorandum is attached. As your audit disclosed, prior to that date there were many cases in which no formal determination and findings (D&F) documents were prepared. After September 23, 1994, the audit disclosed only one case in which the D&F could not be located.

We acknowledge that several other areas your staff uncovered in this audit require management attention and commitment to corrective actions. As always, we welcome the opportunity to improve our processes.

Concerning the material control weakness discussed in Appendix A of the draft report, we believe that the planned corrective actions will resolve the weakness. We want to eliminate the weakness and would appreciate your views on the adequacy of the planned actions.

We appreciate the courtesy and professionalism displayed by your staff and trust that our comments and responses will be used in formulating your final audit report. Should you require any additional information or have any questions, please contact CAPT Philip Crowell, USN, DSWA Inspector General at (703) 325-7096.

A handwritten signature in black ink, appearing to read "Garry L. Curtin".

GARY L. CURTIN  
Major General, USAF  
Director

Attachments  
as stated

**Defense Special Weapons Agency Responses to Findings in DoD Draft of Proposed Audit Report, "Defense Special Weapons Agency Procurements Through the Department of Energy," Project No. 6CH-8003, February 10, 1997**

**Finding 1.** 14 IACROs contained statements of work that did not specify work deliverables.

Revised

**Agency Response. Partially Concur.** In three of the cases cited by the auditors, (94-7628, HD 1102-406, and HD 1102-5-01), DSWA considers the deliverables to be adequately specified. On three of the cases (HD1102-5-C57G, HD1102-5-124A, and HD1102-5-145H), DSWA agrees that specific deliverables are not specified but believes that the nature of the services acquired (hands-on day to day support with the Davis Gun and at the Nevada Test Site) were such that it was not necessary to specify detailed deliverables. DSWA agrees with the auditors as to the other eight cases cited. We note that six of those cases pertain to base operating support at Johnston Atoll. DSWA no longer uses the Department of Energy at Johnston Atoll; we now have a fixed price contract with detailed deliverables issued and administered on our behalf by the Navy. [The remaining two IACROs pertain to scientific computing services at Los Alamos National Laboratory. DSWA will review that relationship in light of the audit report and, regardless of where we decide to acquire the services, the associated documents will specify detailed deliverables.]

**Finding 2.** 17 IACROs and 7 modifications did not have D&F documents while an additional 11 IACROs and 28 modifications with D&F documents did not substantiate that DOE national laboratories could perform the work more conveniently and economically than private sector contractors.

**Agency Response. Partially Concur.** DSWA agrees that 17 IACROs and 7 modifications did not have D&F documents. DSWA established its policy establishing the requirement for D&Fs on September 23, 1994. Only one of the cases identified by the auditor occurred after that date. With respect to substantiation, DSWA believes that, in eight of the cases cited by the auditors, (94-283-04, 94-283-05, 94-283-06, 94-5863, 94-7627, 95-3005, 95-3005-01, and HD1102-5-C57G) the D&F is substantiated by the file. Three of these cases reflected continuation of an on-going effort to design, construct and test an item for the Cooperative Threat Reduction Program. Since the laboratory had designed and fabricated the device, it made sense to have the laboratory complete the project. One of the cases was to fund modifications to an existing, unique piece of equipment permanently installed at the laboratory in question. Similarly, one of the cases involved the use of a unique Davis Gun which had been identified as the only existing Davis Gun capable of meeting the technical requirements. The remainder of the eight cases were, in the opinion of DSWA, adequately substantiated based upon the laboratory's established expertise. Seven of the IACROs and Modifications cited by the auditors deal with Material Control & Accountability. These actions were externally directed, but DSWA agrees that the D&Fs do not adequately substantiate the case. As to the remainder of the IACROs cited by the auditors, DSWA agrees.

## Defense Special Weapons Agency Comments

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**Finding 3.** DSWA did not receive DOE performance reports for 26 of the IACROs and did not prepare performance evaluations for any of the 35 IACROs.

**Agency Response. Partially Concur.** In six of the cases cited by the auditors, all pertaining to the Cooperative Threat Reduction Program, DSWA considers the materials in the files as reflecting performance reporting. We understand that the auditors disagree because the documents are in the form of briefings rather than analytical reports. We also note that seven of the cases cited by the auditors pertain to base operating support at Johnston Atoll. Ample documentation exists for Johnston Atoll; albeit not in the IACRO file. DSWA conducted Quarterly Management Meetings at which all aspects of cost, schedule and performance were presented. As noted above, DSWA no longer uses the services of the Department of Energy at Johnston Atoll.

DSWA agrees that it did not prepare performance evaluations for any of the 35 IACROs.

**Finding 4.** DSWA did not establish that cost reimbursements totaling \$53 million for 16 IACROs were accurate, reasonable, and allowable.

**Agency Response. Non-Concur.** All DSWA reimbursements have been accomplished in accordance with established policies and guidelines. Although not required, DSWA recognizes that certification by DOE would contribute towards management's assurance of the appropriate use of Agency resources, and as such requests such certification in administrative directions contained in Agency IACROs. DSWA will continue to request such certification, while at the same time, ensuring that the payment of reimbursement vouchers is accomplished in accordance with legal guidelines.

**Finding 5.** DSWA did not support unliquidated obligations, totaling \$19.3 million, for 11 IACROs with valid requirements.

**Agency Response. Non-Concur.** The response to Recommendation 5 of the audit report provides information substantiating that in at least one case the amounts in question are not excess to program requirements. The detailed review mentioned in that response will determine whether any of the funds should be recovered.

## Defense Special Weapons Agency Comments

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**Defense Special Weapons Agency Responses to Recommendations in DoD Draft of Proposed Audit Report, "Agency Procurements Through the Department of Energy," Project No. 6CH-8003, February 10, 1997.**

**Recommendation 1a.** Issue guidance to require project officials to prepare specific statements of work for interagency cost reimbursement orders that include deliverable requirements.

**Agency Response. Concur.** Although the policy memorandum dated September 23, 1994, required project officials to do this, it is clear from the audit results that we have not achieved uniform compliance. DSWA will, within 90 days, publish a new DSWA Instruction 5100.30A, which will emphasize this requirement. Further, DSWA will, within 180 days, publish an updated version of the Project Officer's Handbook. The updated version will provide additional guidance regarding the required level of detail and clarity.

**Recommendation 1b.** Issue guidance to require project officials to prepare and maintain determination and finding documents and support records to substantiate the need to issue interagency cost reimbursement orders.

**Agency Response. Concur.** This requirement will be promulgated in the revisions to DSWA Instruction 5100.30 A and the Project Officer's Handbook, mentioned above.

**Recommendation 1c.** Issue Guidance to require project officials to request sufficient details on the work performed and incurred costs to determine the reasonableness of cost reimbursement vouchers submitted by the Department of Energy.

**Agency Response. Partially Concur.** DSWA agrees that there have been wide variations in the level of management oversight and associated documentation with respect to IACROs. The revisions to DSWA Instruction 5100.30A and the Project Officer's Handbook will require periodic project reviews addressing cost, schedule, and performance and will mandate a minimum level of required documentation. The standard will require that the project officials be sufficiently informed to determine, throughout the course of the project, whether DSWA is obtaining reasonable value for its money. We do not contemplate having our project officials second guess the performing government agency's determinations regarding the allowability, allocability, and reasonableness of specific cost items.

**Recommendation 1d.** Issue guidance to require project officials to perform written evaluations of technical performance, management performance, and customer satisfaction on interagency cost reimbursement orders.

**Agency Response. Concur.** This requirement will be included in the revision to DSWA Instruction 5100.30A and the Project Officer's Handbook.



## Defense Special Weapons Agency Comments

Final Report  
Reference

Revised

**Recommendation 2.** Require the Department of Energy to review and certify cost reimbursement vouchers, and withhold payment and return vouchers that have not been reviewed and certified as accurate by a Department of Energy official.

**Agency Response. Non-Concur.** DSWA already requests that IACRO vouchers be certified by the performing government agency. However, we do not have the legal authority to refuse to pay otherwise valid vouchers based upon the lack of such certification. DSWA will continue to request certification and will advise the Department of Energy that this is a matter of DoD IG concern.

**Recommendation 3.** Validate that all interagency cost reimbursement orders are recorded in the Cost Accounting and Financial Resources Management System.

**Agency Response. Partially Concur.** All DSWA resources are fully accounted for within the Centralized Accounting and Financial Resource Management System (CAFRMS). CAFRMS is an on-line, real time, financial resource management system which integrates planning, programming, budgeting, accounting and financial reporting functions for all agency resources, to include those executed by Field Command. CAFRMS has been fully certified as being compliant with General Accounting Office standards.

As part of a review of financial management practices, the Comptroller has recognized that differences in numbering conventions were being utilized at Field Command. As part of a management improvement initiative, action has been taken to standardize document numbering methodologies utilized throughout the Agency. This effort will facilitate tracking, review and analysis efforts in the future.

**Recommendation 4.** Establish procedures to require the Department of Energy to confirm the acceptance of all funds received on Interagency Cost Reimbursement Orders.

**Agency Response. Non-Concur.** DSWA closely monitors all IACROs that are issued to ensure that documents are properly accepted. In accordance with established fiscal policies and federal accounting standards, DSWA requires that recipient activities, to include the Department of Energy, provide signed acceptances of all IACRO documents as the basis for recording obligations. This signed acceptance provides DSWA confirmation that the funds in question were received.

**Recommendation 5.** Deobligate the following funds:

a. \$16.6 million on Defense Special Weapons Agency Interagency Cost Reimbursement Orders 94-602, 94-604, 94-614, 94-846, and HD1102-4-CTR-05.

b. \$1.9 million on Defense Special Weapons Agency Interagency Cost Reimbursement Orders 92-104, 92-885, and 93-105, and HD1102-4-CTR-01.

Deleted

Renumbered

Revised

Revised

## Defense Special Weapons Agency Comments

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Reference

c. \$700,000 on Defense Special Weapons Agency Interagency Cost Reimbursement Order 94-5863 for the Los Alamos Neutron Science Center project; and

Revised

d. \$78,000 on Defense Special Weapons Agency Interagency Cost Reimbursement Order 95-3023 for the Los Alamos scientific computing support.

Revised

**Agency Response. Non-Concur.** The unliquidated obligation amounts currently reflected in DSWA's financial system for the above orders are, in most cases, insufficient to support the amounts recommended for deobligation in the audit report. The "excess" unliquidated obligations portrayed in the audit report erroneously assumed that the efforts in question were fully completed and that all financial billings had been submitted and paid. Contrary to this assumption, the financial posture depicted in the report represents billings/payments as of a given point in time and not the final close out position for the programs in question. This is evident by the updated financial posture depicted below:

IACRO	Unliquidated DOE Amount Audit Report (\$K)	DSWA Unliquidated As of 4/10/97 (\$K)
94-602	11,038	5,893
94-604	4,645	3,606
94-614	606	469
94-846	1	1
HD1102-4-CTR-05	325	1,173
92-104	51	51
92-885	52	52
93-105	844	519
HD1102-4-CTR-01	961	959
94-5863	700	0
95-3023	78	78

Preliminary discussions with DOE and laboratory personnel confirm DSWA's position that unliquidated amounts reflected in the audit report are not based on completed efforts for which all reimbursements have been made. As a case in point, discussions with DOE and laboratory personnel indicate that costs have in fact been incurred for the stated effort against the \$700K identified for deobligation in the audit report against IACRO 94-5863. As per verbal discussions with laboratory personnel, the current uncoded balance is approximately \$129K, against which additional costs are anticipated. Based on this scenario, DSWA will conduct a thorough review of unliquidated IACRO balances and take prompt action to deobligate any balances validated as excess.

**Recommendation 6.** Review obligations on all Interagency Cost Reimbursement Orders and deobligate any funds that exceed amounts required to complete the orders.

Renumbered

**Agency Response. Concur.** Funds that are reflected as unliquidated in CAFRMS do result in a follow-up letter from the Comptroller. However, the audit did disclose a problem with respect to IACROs involving advance billings. DSWA records treat such funds as disbursed, so there is no finance and accounting mechanism by which to determine whether the funds have, in fact, been disbursed by the performing government agency. DSWA plans to take two actions to correct this deficiency. First, the modifications to DSWA Instruction 5100.30A and the Project Officer's Handbook will require the project manager to monitor financial performance. Accordingly, the project manager will be aware of any "left-over" funds. Second, we will ask the Department of Energy (and all other recipient agencies) to advise us promptly of any funds remaining at the conclusion of the effort. Within 60 days DSWA will require appropriate agency personnel to perform the review and take action to deobligate any funds that exceed amounts required to complete the orders.

## Defense Special Weapons Agency Comments



Defense Nuclear Agency  
6801 Telegraph Road  
Alexandria, Virginia 22310-3398

SEP 23 1994

MEMORANDUM FOR DISTRIBUTION D

SUBJECT: Agency Compliance with the Economy Act of 1932

The Economy Act of 1932 as addressed by the Federal Acquisition Regulation (FAR) 17.5 and the Defense FAR Supplement (DFARS) 217.5 allows a requiring agency to place orders with other agencies for supplies or services that that agency may be in a position to supply, render, or obtain if formally determined to be in the Government's best interest. The formal written determination required by the Act must include various certifications as to legal authority, assurances the action would not conflict with the servicing agency's authority, and support for a finding that the services cannot be performed as conveniently or more economically by private sector contractors.

In several dramatic and highly publicized cases, action has been taken against several DoD activities for sending requirements and money to the Library of Congress, the Department of Energy (DOE), and the Tennessee Valley Authority (TVA) circumventing the legal requirements for sole source approval and notifications to industry through the Commerce Business Daily as required under the 1984 Competition in Contracting Act. This was thoroughly explained in the Under Secretary of Defense (Acquisition) memo to the Directors of Defense Agencies and the Military Departments on 25 October 1991 (Attachment 1).

In 1993, DNA reported only one material weakness under the Federal Manager's Financial Integrity Act: the failure to comply with the certification requirements of the Economy Act of 1932. To comply with the Act, DNA must include procurement experts in the process since they are in the best position to: (i) ascertain compliance with all requirements of law and regulations; (ii) determine if the price offered is the best available; and (iii) insure those necessary actions are taken to safeguard the interests of the Government. In his memorandum of 8 February 1994, the Secretary of Defense now requires a person at the SES/Flag/General Officer level or activity commander level (for activities without a General Officer or SES) to provide the overview required (Attachment 2). Accordingly, these responsibilities are delegated to the Director, Acquisition Management who may redelegate to the Commander, Field Command for FCDNA actions.

To be consistent with DoD policy on interagency agreements and to assure careful stewardship of DNA resources, the Comptroller (COMP-1, Program and Budget Division) shall process

## Defense Special Weapons Agency Comments

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SUBJECT: Agency Compliance with the Economy Act of 1932


all requirements which may be subject to the Economy Act through Acquisition Management prior to release to the servicing agency (Attachment 3). This shall include only the following:

- o All IACROs (Interagency Cost Reimbursable Orders)
- o MIPRs (Military Interdepartmental Purchase Requests) if a portion of work will be placed on contract (not including lab supplies and materials).

To facilitate the processing of MIPRs, directorates should clearly identify in the accompanying MIPR control sheet any efforts to be placed on contract.

All previous delegations not consistent with the above are revoked without prejudice to actions taken thereunder.

During the initial planning stage Project Managers should work closely with the Contracting Officer responsible for support of their Directorate to document compliance with the DoD policy on this matter. To aid in the decision to issue an order under the Economy Act, Attachments 4 and 5 provide guidance to be used in understanding this process and in reaching timely decisions on these out-sourcing situations.

  
KENNETH L. HAGEMANN  
Major General, USAF  
Director

Attachments:

1. USDA Memo 25 Oct 91
2. SECDEF Memo 8 Feb 94
3. Process Flow Chart
4. Contracting Support Assignments
5. Questions to Support Approval

## **Audit Team Members**

The report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD

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